On February 8th 2023, a private members' bill from the Bloc Quebecois, Bill C-282, that sought to protect supply management from being dismantled during trade negotiations, passed through second reading stage in the House of Commons. 293 MPs voted in favour of the bill and

just 23 MPs voted against. In a parliament, and a political climate more broadly, that is so intensely polarized, it is rare to see legislation dealing with fundamental economic issues be approved by 87% of MPs. And although 51 MPs ended up voting against the bill at third reading, the results at second reading show that a vast majority of MPs support the basic concept of the supply management regime. It is my intention in this post to explain the what exactly supply management is, the roots of this near unanimous support for it among the political class, and ultimately why supply management is harmful to both dairy producers and the Canadian economy writ large.

What is Supply Management?

Supply management is a system that, in its essence, is intended to control the production of dairy-related goods in Canada. This is done in three different ways that I will briefly describe:

1. Quotas are set on the total amount of a dairy product that any one farmer can produce. This is done to stabilize the price of these products.

2. Farmers are guaranteed a minimum price for their dairy products. This price is usually set through negotiations between farmers and processors.
3. A "minimum rate of access" is granted to foreign dairy producers, meaning that they can import their goods up to a certain point without added costs. However, once that quota is reached, a tariff is applied to any excess of imported dairy goods.
4. Massive subsidies are given to the dairy industry by the federal government. These subsidies comprise 18% of the revenue generate by dairy farms.

How did Supply Management come to be?

In 1972, the federal Liberal government, led by Pierre Trudeau, passed the *Farm Products Agencies Act,* established the Canadian Milk Supply Management Committee and the National Farm Products Marketing Council. Both of these bureaucracies oversee the regime of tariffs and quotas I previously explained. The fact that supply management happened to have been introduced by the Pierre Trudeau government is not a coincidence, as Pierre Trudeau, over the course of his tenure as

Prime Minister, implemented a plethora of policies (including the infamous National Energy Policy) that were inimical to the free market.

Why is Supply Management Harmful?

While supply management may benefit some farmers, it punishes consumers through high prices for dairy products. It also prevents these products from competing in a globalized free market, which ultimately hurts the Canadian economy and creates economic stagnancy.

According to one study, the supply management system forces the average Canadian family to spend between $466 and $592 per year more on dairy products than they would if the system doesn't exist. Why? Because the quotas on dairy production mean that the supply of dairy products is limited. Meanwhile, the demand for dairy products keeps growing as the Canadian population rapidly swells due to immigration. This combination of a strictly limited supply and ever-increasing demand inevitably results in higher prices. The study also notes that low-income families and those with more children disproportionately suffer from these price increases.

These aforementioned production quotas also mean that farmers can only export limited amounts of dairy products, with farmers often having to discard milk if production ends up exceeding these quotas. Not only is this a massive waste of food, but the milk being discarded could be exported to other countries, therefore growing our dairy industry and bolstering our economy as a whole. In New Zealand, where a similar supply management system was abolished in 1984, dairy products represent 20% of the value of all exports, whereas in Canada they represent just 0.06%. This has made their dairy industry far more competitive internationally, and is in spite of their dairy industry being far less subsidized by the government than Canada's (less than 1% of dairy revenues in New Zealand come from subsidies, yet 18% come from subsidies in Canada).

The supply management system also causes significant tension whenever Canada enters into trade negotiations with another country. When Donald Trump demanded the re-negotiation of NAFTA, for example, one of the reasons he decided to impose tariffs on aluminum and steel imported from Canada was frustration with Canada's supply

management regime. This is because supply management insulates our dairy industry from competition, meaning the Canadian dairy market is inaccessible to other countries and profits can't be generated from it.

Why does the Canadian political establishment love supply management?

If supply management is bad for both the average consumer and the Canadian economy writ large, then why did 87% of MPs approve of legislation that seeks to keep the system intact during trade negotiations? The answer circles back to a consistent theme of my campaign, which is that entrenched special interests have influenced the political system to make it work in their favour. In this case, the entrenched special interest at play happens to be the extremely well-organized dairy lobby.

According to the Office of the Commissioner of Lobbying, the dairy industry has lobbied federal politicians 174 times over the past twelve months. This amount of lobbying surpasses even that of the oil industry, often considered the most powerful lobby in Canada, who logged 160 instances of lobbying over the same period.

Part of the reason for the power of this lobby comes from the fact that Canadian dairy farms are disproportionately concentrated in rural regions of Ontario and Quebec, provinces that both contain high numbers of seats in the House of Commons. Meanwhile, opposition to

supply management is more likely to come from Western Canada, a region that holds less seats in the House of Commons and is less politically competitive than either Ontario or Quebec. Politicians are therefore, in part, receptive to this lobby because it is concentrated in a politically valuable area of the country.

These factors make life difficult for politicians who dare to defy this consensus and oppose the continued existence of supply management. During the 2017 Conservative Leadership Race, Maxime Bernier came out strongly against supply management as he (rightly) viewed the byzantine system of tariffs, quotas, and price controls as being fundamentally at odds with his free market principles. This prompted the ire of the all-powerful dairy lobby, who rallied hard behind pro-supply management candidate Andrew Scheer. In the end, Maxime Bernier ended up losing the race to Scheer by less than a 1% margin, with the dairy lobby being a key determinant in his loss.

Final Thoughts

Dairy products are extremely basic goods that are consumed by a vast majority of the population. Ensuring that these products are reasonably priced is key to creating a country with a lower cost of living for the common people. Supply management and the special interests that prop it up inflate the cost of dairy products beyond what is reasonable, and therefore stand in the way of bringing back affordability to people's lives.